

Comments for the Record
United States House of Representatives
Committee on Ways and Means
Subcommittee on Select Revenue Measures
Hearing on How Recent Limitations to the SALT Deduction
Harm Communities, Schools, First Responders, and Housing Values
Tuesday, June 25, 2019, at 10:00 a.m.

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Chairman Thompson and the Ranking Member Smith, thank you for the opportunity to submit these comments for the record to the Committee on Ways and Means Select Revenue Measures Subcommittee.

Before learning how limitations on SALT deductions harm communities, schools, first responders and housing values, we must first determine if they do or not. This all depends on whether local jurisdictions feel that they cannot increase, or worse feel that they must decrease, their tax rates in response to the recent tax reform (which we assure you, we are no fans of, as we demonstrate in the Attachment).

In the recent Great Recession, some states kept services at current levels and others were forced into deep cuts until they agreed to increase property tax rates to account for lower housing values, leaving revenue static and keeping services in place. To assume that the loss of the SALT deduction through higher standard deductions for some and their reduction for others is to assume that America Legislative Exchange Council member governments were correct in not wanting to increase property tax rates. Again, this is not the case.

In 1998, the Washington, D.C. Financial Management Authority commissioned a study to determine if wealthy taxpayers would flee if their income taxes were increased. The study found that they did not. Future Mayor Anthony Williams pushed back efforts by certain Members of the Council seeking to lower taxes to take into account the District's renewed financial health as the result of federal legislation relieving the District of pension liabilities for public safety and educational professionals and certain other state functions. No one left.

No one will leave the high tax states where taxpayers (who are also donors, as they were in the District) no longer have access to the SALT deduction. I cannot imagine leaving an apartment in Midtown Manhattan or a mansion in the Hamptons or Kings Point, etc., just because a tax cut was lost. I can imagine the same taxpayers asking for special consideration to keep political donations flowing to local officials, who are more dependent on such contributions due to less attention to their down ballot offices.

The Tax Cut and Jobs Act likely lowered tax burdens for most of the higher income SALT deduction users. I could not foresee such a tax bill leaving any millionaire behind. Rather

than figuring out how to revisit the issue of lower deductibility, Congress should consider increasing these tax rates. Until then, states should have no qualms in increasing tax rates for those who benefited from the TCJA.

If state income tax rates are relatively flat at higher income levels, states should create higher rates for such income ranges. Indeed, some states have. Rather than jumping on a SALT repeal bandwagon, they should imitate those who have clawed back federal tax cuts and especially those who have increased tax benefits for families after having done so, as should the Ways and Means Committee.

Real comprehensive tax reform (rather than the faux reforms of the TCJA) could end this problem by shifting funding of domestic military, civil and entitlement spending to a menu of consumption taxes (both invoice and subtraction/net business receipts), while a high income and dividend surtax and an asset VAT fund overseas, strategic and sea deployments (which are usually debt funded), net interest and debt repayment. Attachment Two provides further information on how tax reform would work.

Lest we forget, we have a problem with long term debt. Restoring tax breaks to high income local taxpayers will not help this. Attachment Three from our book, *The Future is Calling: It Wants a Refund*, shows why this is important and who debt reduction will benefit most. Unless people start buying my books en masse, it will not be my daughter, but it will likely be the children and grandchildren of members of Congress and especially their donors.

Thank you for the opportunity to address the committee. We are, of course, available for direct testimony or to answer questions by members and staff.

Attachment One – The Tax and Job Cuts Act

The Tax and Job Cuts Act (not a typo) was a classic piece of Austrian Economics, where booms are encouraged and busts happen with no bailouts. Strong companies and best workers keep jobs and devil take the hindmost. It is economic Darwinism at its most obvious, but there is a safety valve. When tax cuts pass, Congress loses all fiscal discipline, the Budget Control Act baseline discipline is (as it should be) suspended and deficits grow. Bond purchasers pick up the slack caused by the TCJA, which they will as long as we run trade deficits, unless the President's economic naiveté ruins that for us.

Modern economics has become infected with the idea that higher tax rates and lower public spending hurt the economy. By definition, this is not case. The exact opposite is true. To refresh our memories of what is in the U.S. Code and most basic economics textbooks, Gross Domestic Product equals equal government purchases, consumption from government employee, contractor, transfer recipient and second order private sector spending, which leads to private sector investment, and exports net of imports (which creates a source of funds for debt finance).

Anything that is not part of GDP is considered “savings” or in reality, is asset inflation. If you want to end poverty, give poor people and retirees more money and the economy will grow. Increase government expenditure (even bombers) and the economy will grow, including for the now notorious upper middle class.

Lower tax rates also made money available to chase the same supply of investment instruments, which bid up their price, and caused the invention of a whole range of new products which would be built up and sold by the emerging financial class, who would profit-take and watch what they created go bust and start yet another modern recession, especially the Great Recession just experienced. Only higher tax rates or increased deficit spending control such asset inflation (and the consumption cycles associated with them – which Marx thought was the driver of the boom bust cycle – Marx had a failure of imagination).

A key part of our proposals is to increase income tax revenue from the very wealthy through our income surtax. The higher the marginal tax rate goes, the less likely shareholders and CEOs will go after worker wages in the guise of productivity while pocketing the gains for themselves. Since shareholders usually receive a normal profit through dividends, it is the CEO class that gets rich off of workers unless tax rates are high enough to dissuade them.

Attachment Two -Tax Reform, Center for Fiscal Equity, May 22, 2019

For the past eight years, we have had a standard plan with four elements followed by explanatory paragraphs. The following is a different presentation with the same concepts.

Individual payroll taxes. These are optional taxes for Old Age and Survivors Insurance after age 60 (or 62). These will be collection of these taxes occurs if an income sensitive retirement income is deemed necessary for program acceptance. The ceiling should be lowered to reduce benefits paid to wealthier individuals and a floor should be established so that Earned Income Tax Credits are no longer needed. Subsidies for single workers should be abandoned in favor of radically higher minimum wages.

Income Surtaxes. Individual income taxes, which exclude business taxes, above an individual standard deduction of \$50,000 per year. It will include initial cash distributions from inheritance (except those from the sale of estate assets, see below). This tax will fund net interest on the debt (which will no longer be rolled over into new borrowing), redemption of the Social Security Trust Fund, strategic, sea and non-continental U.S. military deployments, veterans' health benefits as the result of battlefield injuries, including mental health and addiction and eventual debt reduction.

Asset Value-Added Tax (A-VAT). A replacement for capital gains taxes and the estate tax. It will apply to assets held for a longer period of time, exercised options, inherited assets and the profits from short sales. Tax payments for option exercises and inherited assets will be reset, with prior tax payments for that asset eliminated so that the seller gets no benefit from them. In this perspective, it is the owner's increase in value that is taxed. Free assets to the seller will be counted as such. As with any sale of liquid or real assets, sales to a qualified broad-based Employee Stock Ownership Plan will be tax free. These taxes will fund the same spending items as income or S-VAT surtaxes. This tax will end Tax Gap issues owed by high income individuals.

Subtraction Value-Added Tax (S-VAT). These are employer paid Net Business Receipts Taxes that allow multiple rates for higher incomes, rather than collection of income surtaxes. They are also used as a vehicle for tax expenditures including healthcare (if a private coverage option is maintained), veterans' health care for non-battlefield injuries, educational costs borne by employers in lieu of taxes as either contributors, for employee children or for workers (including ESL and remedial skills) and an expanded child tax credit.

The last allows ending state administered subsidy programs and discourages abortions, and as such enactment must be scored as a must pass in voting rankings by pro-life organizations (and feminist organizations as well). An inflation adjustable credit should reflect the cost of raising a child through the completion of junior college or technical training. To assure child subsidies are distributed, S-VAT will not be border adjustable.

The S-VAT is also used for personal accounts in Social Security, provided that these accounts are insured through an insurance fund for all such accounts, that accounts go toward employee-ownership rather than for a subsidy for the investment industry. Both

employers and employees must consent to a shift to these accounts, which will occur if corporate democracy in existing ESOPs is given a thorough test. So far it has not.

Regardless, S-VAT funded retirement savings will be credited equally for every worker, which allows for funding both the current program and personal accounts and lessens the need for bend points in benefit calculations. It also has the advantage of drawing on both payroll and profit, making it less regressive.

Invoice Value-Added Tax (I-VAT) Border adjustable taxes will appear on purchase invoices. The rate varies according to what is being financed. If Medicare for All does not contain offsets for employers who fund their own medical personnel or for personal retirement accounts, both of which would otherwise be funded by an S-VAT, then they would be funded by the I-VAT to take advantage of border adjustability. I-VAT also forces everyone, from the working poor to the beneficiaries of inherited wealth, to pay taxes and share in the cost of government. Enactment of both the A-VAT and I-VAT ends the need for capital gains and inheritance taxes (apart from any initial payout). This tax would take care of the low income Tax Gap.

I-VAT will fund domestic discretionary spending, disability and survivors insurance (which will no longer be tied to income and shall be raised to the increased minimum wage rate and adjusted for inflation), and OASI employer contributions if personal accounts are not enacted and non-nuclear, non-deployed military spending, possibly on a regional basis. Regional I-VAT would both require a constitutional amendment to change the requirement that all excises be national and to discourage unnecessary spending, especially when allocated for electoral reasons rather than program needs.

As part of enactment, gross wages will be reduced to take into account the shift to S-VAT and I-VAT, however net income will be increased by the same percentage as the I-VAT. Adoption of S-VAT and I-VAT will replace pass-through and proprietary business and corporate income taxes.

Carbon Value-Added Tax (C-VAT). A Carbon tax with receipt visibility, which allows comparison shopping based on carbon content, even if it means a more expensive item with lower carbon is purchased. C-VAT would also replace fuel taxes. It will fund transportation costs, including mass transit, and research into alternative fuels (including fusion). This tax would not be border adjustable.

Attachment Three - Debt, The Future is Calling: It Wants a Refund, 2019

In the future we face a crisis, not in entitlements, but in net interest on the debt, both from increased rates and growing principal. This growth will only be feasible until either China or the European Union develop tradable debt instruments backed by income taxation, which is the secret to the ability of the United States to be the world's bond issuer.

While it is good to run a deficit to balance out tax cuts for the wealthy, both are a sugar high for the economy. At some point we need incentives to pay down the debt.

The national debt is possible because of progressive income taxation. The liability for repayment, therefore, is a function of that tax. The Gross Debt (we have to pay back trust funds too) is \$19 Trillion. Income Tax revenue is roughly \$1.4 Trillion per year. That means that for every dollar you pay in taxes, you owe \$13 in debt (although this will increase).

People who pay nothing owe nothing. People who pay tens of thousands of dollars a year owe hundreds of thousands.

The answer is not making the poor pay more or giving them less benefits, either only slows the economy. Rich people must pay more and do it faster. My child is becoming a social worker, although she was going to be an artist. Don't look to her to pay off the debt. Your children and grandchildren and those of your donors are the ones on the hook unless their parents step up and pay more. How's that for incentive?

If that is not enough, let's talk raw numbers.

If you look at total debt and the fact that it is 13 times income tax collections, then the wealthy 1% are in hock to the rest of us to the tune of 7 Trillion dollars (yes, with a T). The next 9% owe \$6 Trillion, the next 40% owe \$5 Trillion, with the bottom half owing slightly less than to top 1409 family taxpaying units.

Strata	Lower Limit in \$ Thousands	Effective Tax Rate	Taxes Paid In \$Billions	Amount of Debt Owed in \$Trillions
Bottom 50%	\$0	3.7%	\$43.9	\$0.57
50% to 75%	\$40	15.6%	\$158.5	\$2.06
75% to 90%	\$81	17.8%	\$238.0	\$3.09
90% to 95%	\$140	21.1%	\$162.1	\$2.11
95% to 99%	\$198	23.5%	\$301.6	\$3.92
Top 1%	\$481	26.9%	\$538.3	\$7.00
Top 1409 Households			\$46.9	\$0.61

After seeing this table, any upper income individual who does not lobby for higher tax rates has no love for their children and grandchildren. No one else can be called upon to clean up the mess they are leaving behind.

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All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears:

This testimony is not submitted on behalf of any client, person or organization other than the Center itself, which is so far unfunded by any donations.